Carter Hawley Hale Stores, Inc.

Consolidated Statement of Earnings

(In thousands, except per share data)	1986 52 Weeks	1985 52 Weeks	1984 53 Weeks
Sales	$4,089,794	$3,977,913	$3,724,294
Costs and expenses			
Cost of goods sold, including occupancy and buying costs	2,898,213	2,850,599	2,702,055
Selling, general, and administrative expenses	932,361	923,504	862,272
Interest expense and discount, net	119,005	131,235	117,237
	3,949,579	3,905,338	3,681,564
Earnings from continuing operations before nonoperating items and income taxes	140,215	72,575	42,730
Nonoperating items			
Loss on sale of John Wanamaker	(2,200)		
Loss on sale of Holt Renfrew		(2,450)	
Costs relating to restructuring program	(25,000)		
Costs relating to unsolicited tender offer			(7,100)
	(27,200)	(2,450)	(7,100)
Earnings from continuing operations before income taxes	113,015	70,125	35,630
Income taxes	65,400	22,100	8,500
Earnings from continuing operations	47,615	48,025	27,130
Discontinued operations, net of income taxes of $28,800			62,540
Net earnings before extraordinary item and cumulative effect of change in accounting	47,615	48,025	89,670
Extraordinary item—costs relating to early retirement of long-term debt, net of income tax benefit of $28,804	(29,253)		
Cumulative effect of change in accounting, net of income tax benefit of $15,505	(14,148)		
Net earnings	$ 4,214	$ 48,025	$ 89,670
Primary earnings per common share			
Continuing operations	$ .87	$ .92	$
Discontinued operations			2.75
Extraordinary item	(1.44)		
Cumulative effect of change in accounting	(.70)		
	$ (1.27)	$ .92	$ 2.75
Fully diluted earnings per common share			
Continuing operations	$	$	$ .83
Discontinued operations			1.89
	$ *	$ *	$ 2.72

* Fully diluted earnings per common share are not shown as the effect of the calculation is anti-dilutive.

See accompanying Summary of Significant Accounting Policies and Financial Review.

Carter Hawley Hale Stores, Inc.
Consolidated Balance Sheet

	(In thousands)	January 31, 1987	February 1, 1986
Assets	*Current assets*		
	Cash	$ 18,395	$ 18,147
	Accounts receivable, net	463,963	292,785
	Merchandise inventories	755,971	776,831
	Receivable on sale of Holt Renfrew		29,682
	Other current assets	40,057	41,416
		1,278,386	1,158,861
	Property and equipment, net	799,515	855,494
	Investment in finance subsidiaries	45,068	142,916
	Other assets	38,907	77,496
		$2,161,876	$2,234,767
Liabilities and Shareholders' Equity	*Current liabilities*		
	Notes payable and current installments	$ 83,619	$ 84,707
	Accounts payable	293,321	344,036
	Accrued liabilities	172,217	158,967
	Dividends payable	6,283	6,145
	Current income taxes	7,521	8,355
	Deferred income taxes	121,3[illegible]	114,399
		684,357	716,609
	Long-term debt	577,284	551,613
	Capital lease obligations	130,236	145,940
	Other liabilities	55,182	57,857
	Long-term deferred income taxes	90,610	103,394
	Redeemable preferred stock, $5 par value, stated at redemption value of $300 per share	300,000	300,000
	Common stock, $5 par value	100,213	97,797
	Other paid-in capital	162,435	149,957
	Accumulated earnings	61,559	111,600
		$2,161,876	$2,234,767

See accompanying Summary of Significant Accounting Policies and Financial Review.

Carter Hawley Hale Stores, Inc.

Consolidated Statement of Changes in Financial Position

(In thousands)	1986	1985	1984
Cash from continuing operations			
Earnings from continuing operations	$ 47,615	$ 48,025	$ 27,130
Depreciation and amortization	75,972	75,017	72,278
Deferred income taxes	28,852	23,494	345
Losses, net of income taxes, on sale of John Wanamaker in 1986 and Holt Renfrew in 1985	6,700	2,519	
Cash from continuing operations	159,139	149,055	99,753
Costs relating to early retirement of long-term debt, net of items not requiring cash outlay	(23,173)		
Cash from discontinued operations, including depreciation and deferred income taxes			4,654
Cash proceeds from sale of Waldenbooks, net of income taxes of $29,850			265,150
	135,966	149,055	369,557
Financing			
Net increase (decrease) in notes payable	529,000	(41,089)	41,089
Issuances of long-term debt		250,000	50,000
Issuance of redeemable preferred stock			300,000
Issuances of common stock	14,894	12,062	14,182
Retirement of common stock			(478,611)
Redemption of nonredeemable preferred stock			(5,740)
Early retirement of long-term debt	(400,000)		
Other reductions in long-term debt and capital lease obligations	(120,121)	(25,681)	(18,880)
Net cash provided (used) by financing	23,773	195,292	(97,960)
Capital investments			
Store property and equipment purchased	(107,121)	(127,384)	(107,284)
Properties sold	6,885	20,442	1,350
Elimination of John Wanamaker properties	80,243		
Dividends from finance subsidiaries of prior years' earnings	53,584	948	13,542
Dividends from finance subsidiaries of other paid-in capital	44,264		
Net cash provided (used) by capital investments	77,855	(105,994)	(92,392)
Dividend payments	(54,255)	(53,638)	(50,129)
Other cash sources (uses)			
Accounts receivable, net	(171,178)	(167,261)	30,783
Merchandise inventories	20,860	(59,531)	(137,356)
Receivable on sale of Holt Renfrew	29,682	(29,682)	
Accounts payable and accrued liabilities	(37,327)	83,137	44,515
Prepaid pension contributions		(10,677)	(12,004)
Other, net	(25,128)	(5,281)	(45,189)
Net other cash uses	(183,091)	(189,295)	(119,251)
Cash increase (decrease)	$ 248	$ (4,580)	$ 9,825

See accompanying Summary of Significant Accounting Policies and Financial Review.

Carter Hawley Hale Stores, Inc.

Consolidated Statement of Nonredeemable Preferred Stock, Common Stock, and Other Shareholders' Equity

(Dollar amounts in thousands)	Shares Issued: Nonredeemable preferred	Shares Issued: Common	Par Value: Nonredeemable preferred	Par Value: Common	Other paid-in capital	Accumulated earnings
Balance, January 28, 1984	709,636	35,340,572	$ 3,548	$176,703	$ 263,796	$ 339,486
Net earnings						89,670
Cash dividends						
Common stock ($1.22 per share)						(23,052)
Nonredeemable preferred stock						(71)
Redeemable preferred stock						(27,006)
Issuance of common stock under Employee Stock Ownership Benefit Plan		95,500		477	1,696	
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan		155,555		778	2,403	
Issuance of common stock to Profit Sharing Plan		263,846		1,319	3,819	
Retirement of common stock		(17,952,700)		(89,763)	(130,516)	(258,332)
Conversion of nonredeemable preferred stock	(582,070)	[illegible]214	(2,911)	4,911	(2,000)	
Redemption of nonredeemable preferred stock	(127,566)		(637)		(1,621)	(3,482)
Exercise of stock options		181,890		909	2,781	
Foreign currency translation adjustment						
Cumulative adjustment—beginning of year						(3,139)
Current year adjustment						(1,600)
Balance, February 2, 1985	—	19,066,877	—	95,334	140,358	112,474
Net earnings						48,025
Cash dividends						
Common stock ($1.22 per share)						(23,638)
Redeemable preferred stock						(30,000)
Issuance of common stock under Employee Stock Ownership Benefit Plan		91,746		459	2,154	
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan		118,444		592	2,522	
Exercise of stock options		282,348		1,412	4,923	
Reversal of foreign currency translation adjustment						4,739
Balance, February 1, 1986	—	19,559,415	—	97,797	14[illegible],957	111,600
Net earnings						4,214
Cash dividends						
Common stock ($1.22 per share)						(24,255)
Redeemable preferred stock						(30,000)
Issuance of common stock under Employee Stock Ownership Benefit Plan		67,286		337	2,057	
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan		96,911		485	3,040	
Issuance of common stock to Profit Sharing Plan		10,000		50	303	
Exercise of stock options		295,851		1,479	6,602	
Conversion of convertible debentures		13,056		65	476	
Balance, January 31, 1987	—	20,042,519	$ —	$100,213	$ 162,435	$ 61,559

See accompanying Summary of Significant Accounting Policies and Financial Review.

Carter Hawley Hale

1986 Annual Report

About The Company

Carter Hawley Hale Stores, Inc., is a major retailer operating five department and three specialty store divisions. Carter Hawley Hale customers, principally in the middle and upper income segments, find wide selections of fashionable merchandise priced competitively in all of the company's stores. These merchandise offerings are supported by a strong commitment to providing superior customer service.

Department Stores	**The Broadway–Southern California** Los Angeles	43 stores in Southern California
	The Broadway–Southwest Phoenix	13 stores located in Arizona, Colorado Nevada and New Mexico
	Emporium Capwell San Francisco	22 stores in the greater San Francisco Bay area
	Thalhimers Sacramento	24 stores in southern Virginia, North and South Carolina, and Tennessee
	Weinstock's Sacramento	12 stores located in northern California, Nevada and Utah
Specialty Stores	**Bergdorf Goodman** New York	Fifth Avenue, New York City
	Contempo Casuals Los Angeles	165 women's specialty stores nationwide
	Neiman-Marcus Dallas	22 stores in Texas, California, Florida, Georgia, Illinois, Massachusetts, Missouri, Nevada, New York and Washington, D.C.
Support Divisions	**Information Services** Anaheim	Provides data processing and systems support for all Carter Hawley Hale divisions
	Market Services New York	Responsible for large-scale purchasing programs and the marketing of private-label merchandise

Carter Hawley Hale Stores, Inc.

Financial Highlights

(In thousands, except per share data)	1986 52 Weeks	1985 52 Weeks	1984 53 Weeks
Sales	$4,089,794	$3,977,913	$3,724,294
Earnings from continuing operations before nonoperating items and income taxes	$ 140,215	$ 72,575	$ 42,730
Net earnings			
Continuing operations	$ 47,615	$ 48,025	$ 27,130
Discontinued operations			62,540
Extraordinary item and change in accounting	(43,401)		
	$ 4,214	$ 48,025	$ 89,670
Primary earnings per common share			
Continuing operations	$ .87	$ .92	$
Discontinued operations			2.75
Extraordinary item and change in accounting	(2.14)		
	$ (1.27)	$ .92	$ 2.75

Contents

Fiscal 1986 was a landmark year for the company. Sales reached the four billion dollar mark for the first time and pretax earnings from operations almost doubled, reaching record levels. A proposed restructuring of the company was announced and a year-end hostile takeover attempt was made and withdrawn.

Financial Performance

Sales for the year were $4.1 billion, an increase of 2.8 percent over the prior year period. On a comparative store basis sales were up 3.2 percent.

Pretax earnings from operations before special items improved 93 percent to $140 million compared with $73 million. Fully diluted earnings per share before special items, as calculated, were $2.42 compared with $1.58 in 1985.

A number of special charges were taken in 1986, including pretax charges of $25 million relating to the restructuring program and $2 million from the sale of John Wanamaker, and after tax charges of $29 million due to the early retirement of $400 million of debt and $14 million reflecting a change in accounting for software development costs. After these charges, net earnings for the year were $4 million compared with $48 million in 1985.

Both the department and specialty stores turned in quite good operating results. Cost of goods sold as a percentage of sales decreased by nearly one percent. Private label merchandise developed by the Market Services division was a major contributor to improved margins and will continue to play an important role in the coming year.

Selling, general, and administrative expenses as a percentage of sales declined almost half a percent. This decrease was accomplished while we added over 800 sales associates in our department stores to improve customer service.

Markdowns were lower during the past year due to improved inventory management and a less intense promotional environment, while currency levels of our inventories were maintained.

The Proposed Restructuring

We began working on a matter of special significance during 1986—the proposed restructuring of the company's department and specialty store segments into two independent publicly traded companies.

The restructuring will incorporate a market formula designed to provide all shareholders with essentially equivalent value. You will be receiving the proxy materials in the near future and be asked to vote on it at this summer's annual meeting. I urge you to read these materials carefully so that you will have a complete understanding of the restructuring.

In the meantime, it is gratifying that the inherent value of Carter Hawley Hale is being recognized, as evidenced by the record high level recently attained in the trading price of our common stock.

The Tender Offer

Late in the year you received a letter which described the tender offer to purchase all of the company's outstanding shares at $55 net per share (on a common stock equivalent basis) commenced on December 1, 1986, by Retail Partners—a partnership formed by subsidiaries of The Edward J. DeBartolo Corporation and The Limited, Inc. Retail Partners later proposed to raise the price under its offer to $60 net per share on a common stock equivalent basis.

Subsequently, the company's Board of Directors determined that the offer was inadequate and not in the best interests of our shareholders and recommended that shareholders not tender their shares into the offer. As previously announced, on December 8, 1986, Retail Partners withdrew its offer.

Sale of John Wanamaker

In December we completed the sale of John Wanamaker to Woodward & Lothrop, Inc., a subsidiary of The Taubman Investment Co., Inc., for approximately book value, subject to adjustment on audit. Funds derived from the sale were used to reduce debt and supply working capital.

Store Modernization

We continued our modernization efforts during the year, a highly effective way to improve individual store results and provide a good return on investment.

About $48 million was spent on modernization projects and new equipment with more than 700,000 square feet of store space remodeled.

During 1986 we added about 20,000 square feet of selling space to the Emporium Capwell store in Santa Clara and began a total remodeling of the store. About 50 percent of the remodeling has been completed, primarily affecting the women's ready-to-wear, fashion accessories, and men's clothing areas. Extensive renovations were also undertaken at The Broadway-Southern California store in Montclair and the Thalhimers store in downtown Richmond.

At Neiman-Marcus, major space reallocations and upgradings were completed at the St. Louis, Fort Worth, and Newport Beach stores. Areas affected included cosmetics, costume jewelry, and fashion accessories.

During 1986 we opened four new department stores and added 32 Contempo Casuals stores. The Broadway-Southern California opened a 151,500 square foot store in Escondido and a 206,500 square foot store in Costa Mesa's South Coast Plaza, one of the most successful shopping centers in the country. Thalhimers opened a 104,000 square foot store in Durham, replacing an older facility, and The Broadway-Southwest added a third store in Denver when it opened a 135,000 square foot store in the Westminster mall.

Contempo Casuals continued on course with its expansion and entered 14 new states. At the end of the year Contempo operated 165 stores in 26 states.

Executive Changes

Stewart M. Kasen, president of Thalhimers since 1984, was given the added responsibilities of chief executive officer. He succeeds William B. Thalhimer, Jr., who continues to serve as chairman of Thalhimers and as a director of Carter Hawley Hale.

Cheryl Nido Turpin, formerly president and chief executive officer of Weinstock's was named chairman and chief executive officer. Michael C. Weisberg, who was an executive vice president at this division, was promoted to president.

Robert B. Mang, formerly a senior vice president at John Wanamaker, was named president and chief executive officer of The Broadway-Southwest. And Stephen C. Elkin, who was an executive vice president at Bergdorf Goodman, was promoted to vice chairman.

At the corporate office, Loyd E. Ellis joined the company as an executive vice president responsible for the Information Services division, the company's Center for Education, and human resources. Mr. Ellis had served the company as a consultant for three years, following a career with IBM. Paul E. Chevalier was promoted to senior vice president employee relations after serving the company as vice president employee relations since 1974.

Thomas E. Brown, formerly a vice president with Citibank, joined the company as vice president credit. Theodore J. Cotti, who was director of the Center for Education, was named vice president human resource development. Serena S. Kokjer, formerly vice president research and merchandise information officer at

Emporium Capwell, was appointed vice president information management. Charles E. Murphy, formerly director of leasing was named vice president real estate leasing. And Edward A. Wolfe, who was vice president loss prevention and sales support services at Neiman-Marcus, was appointed vice president security.

Outlook For The Future

Fiscal 1986 was a watershed year for the corporation. We believe the proposed restructuring is an important step in achieving our goal of maximizing shareholder value, and look forward to the opportunities it presents.

As we enter 1987, Carter Hawley Hale is poised for further profit improvement. Much of the credit for this should go to my 46,000 associates, who have contributed so much to the company during this time of change. I want to take this opportunity to thank them for the support and dedication demonstrated during the year.

Sincerely,

Philip M. Hawley

Philip M. Hawley
Chairman and Chief Executive Officer
April 20, 1987

Carter Hawley Hale Stores, Inc.

Financial Table of Contents

Carter Hawley Hale Stores, Inc.

Management's Discussion and Analysis of Results Of Operations and Financial Condition

Results of Operations

Sales increased 2.8 percent in 1986 to $4,089.8 million compared with $3,977.9 million in 1985 which increased 6.8 percent over 1984 sales of $3,724.3 million. On a comparative store basis, sales increased 3.2 percent in 1986 versus 5.8 percent in 1985.

Net earnings in 1986 were $4.2 million compared with $48.0 million in 1985 and $89.7 million in 1984.

A number of unusual items affected the Company's net earnings over the past three years. In order to better understand the improved operating earnings trend over this period, management believes it is helpful to examine earnings from continuing operations before nonoperating items and income taxes. These earnings improved 93.2 percent in 1986 to $140.2 million compared with $72.6 million in 1985. 1985 earnings increased 69.8 percent over 1984 earnings of $42.7 million.

Earnings in 1986 reflected better operating results in both the department and specialty store segments. Cost of goods sold improved to 70.9 percent of sales in 1986 from 71.7 percent in 1985 primarily due to lower markdowns, lower inventory shortage, and increased sales of private label merchandise with attendant higher markup. This improvement was partially offset by a $4.5 million decrease in the LIFO credit compared with 1985. Selling, general, and administrative expenses improved to 22.8 percent of sales in 1986 from 23.2 percent in 1985. This improvement was directly related to the Company's programs implemented in 1985 to substantially reduce administrative and support services expenses that are not related to customer service.

Earnings in 1985 reflected better operating results in both the department and specialty store segments, primarily due to higher gross margin ratios. Cost of goods sold improved to 71.7 percent of sales in 1985 compared with 72.6 percent in 1984, primarily due to lower markdowns. This improvement was partially offset by a $10.8 million decrease in the LIFO credit compared with 1984.

The rate of earnings increase in 1984 was affected by the cost to complete the inventory currency program, which has improved the freshness of the merchandise offered in the Company's stores. In addition, intense promotional activity in the fourth quarter resulted in above normal markdowns that decreased earnings. These effects were partially offset by a $17.2 million LIFO credit, primarily due to lower inflation, increased inventory levels, and increased markdowns.

Lower average borrowings and lower rates decreased interest expense both as a percent of sales and in actual dollars in 1986 versus 1985. Interest expense was 2.9 percent of sales in 1986 compared with 3.3 percent in 1985 and 3.1 percent in 1984. The 1985 increase was due to higher average borrowings for working capital purposes partially offset by lower average borrowing rates.

Special items affecting 1986 results were pretax costs of $25.0 million relating to the restructuring program; a pretax loss of $2.2 million on the sale of John Wanamaker; a $29.3 million after tax charge as a result of costs associated with the early retirement of $400 million of long-term debt; and a $14.1 million after tax charge as a result of a change in accounting for software development costs at the Company's Information Services division. The special items were primarily associated with the Company's proposed restructuring. The special item affecting results in 1985 was a $2.5 million pretax loss relating to the sale of Holt Renfrew & Co., Ltd. 1984 results included special items of $7.1 million of pretax costs relating to an unsolicited tender offer and a gain of $62.5 million, after taxes, relating to the sale of Waldenbooks.

The effective income tax rate was 57.9 percent in 1986 compared with 31.5 percent in 1985 and 23.9 percent in 1984. The higher rate in 1986 was primarily due to the effect of a taxable gain on the sale of John Wanamaker, the nondeductibility of costs relating to the restructuring program, higher state taxes, and the reduction of investment tax credits under the new tax law. The lower rate in 1984 was primarily due to lower pretax earnings in relation to the level of investment credit and ESOB Plan credit and the effect of the tender offer costs.

The Tax Reform Act of 1986 has made substantial changes in the federal income taxation of corporations. The impact of the law on the Company will result in a reduction of the marginal tax rate, elimination of the investment tax credit, capitalization of certain inventory costs, changes in depreciation methods, and repeal of the installment method for reporting income on revolving charge account sales. These changes will result in a reduction of internal cash flow provided by deferred taxes. Additionally, reduction of the marginal tax rate will result in an improvement in net earnings.

The effect of inflation on the Company's sales gains is, in management's opinion, most closely approximated by the Department Store Inventory Price Index published by the Bureau of Labor Statistics. This index increased 1.2 percent in 1986, 2.0 percent in 1985, and 1.0 percent in 1984.

The Ten Year Financial Summary on page 28 is useful for historical information.

Financial Condition

Internally generated funds and short- and long-term borrowings are used to finance working capital needs, principally for accounts receivable and inventories. The Company and Credit Corp. share $673.0 million of bank credit facilities of which $314.0 million was borrowed at January 31, 1987. Additionally, the Company periodically borrows from banks at prevailing market rates on a short-term basis under informal credit lines. At January 31, 1987, $215.0 million was borrowed from banks under these lines. Borrowings under formal and informal credit facilities totaling $529.0 million have been used to retire $400.0 million of long-term debt, to provide for associated retirement expenses and other restructuring costs, and for working capital purposes. At January 31, 1987, the Company has classified $460.0 million of the short-term borrowings as long-term debt for financial statement purposes. It is the Company's intention as part of the restructuring to finance this amount on a long-term basis.

Charge account term modifications during the last three years have significantly increased receivables turnover. These modifications included increases in the minimum monthly payment and the minimum purchase on long-term revolving accounts.

Cash flow has been improved through ongoing balance sheet management programs involving inventory turnover, cash management, reduction of surplus investments, and improved management of other assets and liabilities.

Capital expenditures are financed through a combination of internally generated funds from operations, access to debt markets, property financings, and additional equity. During 1986, capital expenditures for new store space, store modernization, and support facilities and equipment were $107.1 million, compared with $127.4 million in 1985. During 1986, the Company opened four department stores and added 32 Contempo Casuals stores.

Carter Hawley Hale Stores, Inc.
Consolidated Statement of Earnings

(In thousands, except per share data)	*1986 52 Weeks*	*1985 52 Weeks*	*1984 53 Weeks*
Sales	$4,089,794	$3,977,913	$3,724,294
Costs and expenses			
Cost of goods sold, including occupancy and buying costs	2,898,213	2,850,599	2,702,055
Selling, general, and administrative expenses	932,361	923,504	862,272
Interest expense and discount, net	119,005	131,235	117,237
	3,949,579	3,905,338	3,681,564
Earnings from continuing operations before nonoperating items and income taxes	140,215	72,575	42,730
Nonoperating items			
Loss on sale of John Wanamaker	(2,200)		
Loss on sale of Holt Renfrew		(2,450)	
Costs relating to restructuring program	(25,000)		
Costs relating to unsolicited tender offer			(7,100)
	(27,200)	(2,450)	(7,100)
Earnings from continuing operations before income taxes	113,015	70,125	35,630
Income taxes	65,400	22,100	8,500
Earnings from continuing operations	47,615	48,025	27,130
Discontinued operations, net of income taxes of $28,800			62,540
Net earnings before extraordinary item and cumulative effect of change in accounting	47,615	48,025	89,670
Extraordinary item—costs relating to early retirement of long-term debt, net of income tax benefit of $28,804	(29,253)		
Cumulative effect of change in accounting, net of income tax benefit of $15,505	(14,148)		
Net earnings	$ 4,214	$ 48,025	$ 89,670
Primary earnings per common share			
Continuing operations	$ .87	$ .92	$
Discontinued operations			2.75
Extraordinary item	(1.44)		
Cumulative effect of change in accounting	(.70)		
	$ (1.27)	$ .92	$ 2.75
Fully diluted earnings per common share			
Continuing operations	$	$	$ .83
Discontinued operations			1.89
	$ *	$ *	$ 2.72

* *Fully diluted earnings per common share are not shown as the effect of the calculation is anti-dilutive.*

See accompanying Summary of Significant Accounting Policies and Financial Review.

Carter Hawley Hale Stores, Inc.

Consolidated Balance Sheet

(In thousands)		January 31, 1987	February 1, 1986
Assets	*Current assets*		
	Cash	$ 18,395	$ 18,147
	Accounts receivable, net	463,963	292,785
	Merchandise inventories	755,971	776,831
	Receivable on sale of Holt Renfrew		29,682
	Other current assets	40,057	41,416
		1,278,386	1,158,861
	Property and equipment, net	799,515	855,494
	Investment in finance subsidiaries	45,068	142,916
	Other assets	38,907	77,496
		$2,161,876	$2,234,767
Liabilities and Shareholders' Equity	*Current liabilities*		
	Notes payable and current installments	$ 83,619	$ 84,707
	Accounts payable	293,321	344,036
	Accrued liabilities	172,217	158,967
	Dividends payable	6,283	6,145
	Current income taxes	7,521	8,355
	Deferred income taxes	121,396	114,399
		684,357	716,609
	Long-term debt	577,284	551,613
	Capital lease obligations	130,236	145,940
	Other liabilities	55,182	57,857
	Long-term deferred income taxes	90,610	103,394
	Redeemable preferred stock, $5 par value, stated at redemption value of $300 per share	300,000	300,000
	Common stock, $5 par value	100,213	97,797
	Other paid-in capital	162,435	149,957
	Accumulated earnings	61,559	111,600
		$2,161,876	$2,234,767

See accompanying Summary of Significant Accounting Policies and Financial Review.

Carter Hawley Hale Stores, Inc.

Consolidated Statement of Changes in Financial Position

(In thousands)

	1986	1985	1984
Cash from continuing operations			
Earnings from continuing operations	$ 47,615	$ 48,025	$ 27,130
Depreciation and amortization	75,972	75,017	72,278
Deferred income taxes	28,852	23,494	345
Losses, net of income taxes, on sale of John Wanamaker in 1986 and Holt Renfrew in 1985	6,700	2,519	
Cash from continuing operations	159,139	149,055	99,753
Costs relating to early retirement of long-term debt, net of items not requiring cash outlay	(23,173)		
Cash from discontinued operations, including depreciation and deferred income taxes			4,654
Cash proceeds from sale of Waldenbooks, net of income taxes of $29,850			265,150
	135,966	149,055	369,557
Financing			
Net increase (decrease) in notes payable	529,000	(41,089)	41,089
Issuances of long-term debt		250,000	50,000
Issuance of redeemable preferred stock			300,000
Issuances of common stock	14,894	12,062	14,182
Retirement of common stock			(478,611)
Redemption of nonredeemable preferred stock			(5,740)
Early retirement of long-term debt	(400,000)		
Other reductions in long-term debt and capital lease obligations	(120,121)	(25,681)	(18,880)
Net cash provided (used) by financing	23,773	195,292	(97,960)
Capital investments			
Store property and equipment purchased	(107,121)	(127,384)	(107,284)
Properties sold	6,885	20,442	1,350
Elimination of John Wanamaker properties	80,243		
Dividends from finance subsidiaries of prior years' earnings	53,584	948	13,542
Dividends from finance subsidiaries of other paid-in capital	44,264		
Net cash provided (used) by capital investments	77,855	(105,994)	(92,392)
Dividend payments	(54,255)	(53,638)	(50,129)
Other cash sources (uses)			
Accounts receivable, net	(171,178)	(167,261)	30,783
Merchandise inventories	20,860	(59,531)	(137,356)
Receivable on sale of Holt Renfrew	29,682	(29,682)	
Accounts payable and accrued liabilities	(37,327)	83,137	44,515
Prepaid pension contributions		(10,677)	(12,004)
Other, net	(25,128)	(5,281)	(45,189)
Net other cash uses	(183,091)	(189,295)	(119,251)
Cash increase (decrease)	$ 248	$ (4,580)	$ 9,825

See accompanying Summary of Significant Accounting Policies and Financial Review.

Carter Hawley Hale Stores, Inc.

Consolidated Statement of Nonredeemable Preferred Stock, Common Stock, and Other Shareholders' Equity

(Dollar amounts in thousands)	Shares Issued: Nonredeemable preferred	Shares Issued: Common	Par Value: Nonredeemable preferred	Par Value: Common	Other paid-in capital	Accumulated earnings
Balance, January 28, 1984	709,636	35,340,572	$ 3,548	$176,703	$ 263,796	$ 339,486
Net earnings						89,670
Cash dividends						
Common stock ($1.22 per share)						(23,052)
Nonredeemable preferred stock						(71)
Redeemable preferred stock						(27,006)
Issuance of common stock under Employee Stock Ownership Benefit Plan		95,500		477	1,696	
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan		155,555		778	2,403	
Issuance of common stock to Profit Sharing Plan		263,846		1,319	3,819	
Retirement of common stock		(17,952,700)		(89,763)	(130,516)	(258,332)
Conversion of nonredeemable preferred stock	(582,070)	982,214	(2,911)	4,911	(2,000)	
Redemption of nonredeemable preferred stock	(127,566)		(637)		(1,621)	(3,432)
Exercise of stock options		181,890		909	2,781	
Foreign currency translation adjustment						
Cumulative adjustment—beginning of year						(3,139)
Current year adjustment						(1,600)
Balance, February 2, 1985	—	19,066,877	—	95,334	140,358	112,474
Net earnings						48,025
Cash dividends						
Common stock ($1.22 per share)						(23,638)
Redeemable preferred stock						(30,000)
Issuance of common stock under Employee Stock Ownership Benefit Plan		91,746		459	2,154	
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan		118,444		592	2,522	
Exercise of stock options		282,348		1,412	4,923	
Reversal of foreign currency translation adjustment						4,739
Balance, February 1, 1986	—	19,559,415	—	97,797	149,957	111,600
Net earnings						4,214
Cash dividends						
Common stock ($1.22 per share)						(24,255)
Redeemable preferred stock						(30,000)
Issuance of common stock under Employee Stock Ownership Benefit Plan		67,286		337	2,057	
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan		96,911		485	3,040	
Issuance of common stock to Profit Sharing Plan		10,000		50	303	
Exercise of stock options		295,851		1,479	6,602	
Conversion of convertible debentures		13,056		65	476	
Balance, January 31, 1987	—	20,042,519	$ —	$100,213	$ 162,435	$ 61,559

See accompanying Summary of Significant Accounting Policies and Financial Review.

Summary of Significant Accounting Policies

Basis of Reporting

The consolidated financial statements include the accounts of the Company and all subsidiaries except the finance subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation. Pretax earnings of the finance subsidiaries, before noninterest items, are included in the Consolidated Statement of Earnings as a reduction of interest expense.

The Proposed Restructuring

On December 7, 1986, the Company's Board of Directors approved a plan for restructuring the Company. As part of the restructuring, the Company will distribute to its shareholders stock of a newly formed corporation organized to conduct the Company's specialty store business. Each public common shareholder of the Company, including participants in the Company's profit sharing plan and General Cinema Corporation, will retain his stock in the Company, which would continue to operate the Company's department store business, and would also receive $17 in cash and a share of stock in the new specialty store company for each share held. The convertible preferred shares of the Company (held by General Cinema) would be exchanged for shares in the specialty store company. General Cinema would receive no cash or shares of the Company in respect of its preferred shares, but would retain its existing common stock holdings subject to satisfaction of the elections discussed below. Senior management of the Company would receive no cash or specialty store company shares in respect of their existing holdings, but, rather, additional common shares of the Company. It is contemplated that the restructuring plan will allow certain stockholders to make elections as to what cash or securities they will hold after the effective time of the restructuring. The restructuring will incorporate a market formula designed to provide all shareholders with essentially equivalent value. The restructuring is subject to certain conditions, including shareholder approval, and is expected to be completed in 1987. A total of $25 million in costs relating to the restructuring program were accrued and charged to nonoperating expenses in 1986. These costs represent that portion incurred in 1986 of an estimated $75 million of restructuring program costs. Approximately $25 million of these costs will be capitalized by the Company in connection with the issuance of new debt. The specialty store company has not been reflected as a discontinued operation in the accompanying consolidated financial statements as the restructuring is subject to shareholder approval. Absent such approval, management has no intention to sell, dispose or otherwise discontinue the operations of the specialty store company.

Changes in Accounting Policies

In the fourth quarter of 1986, the Company changed its method of accounting for costs incurred in the development of major computer software applications for internal use from capitalization and amortization to expensing these costs as incurred. This change was made to conform the Company's accounting policy with predominant practice. The change, which was adopted retroactive to February 2, 1986, had no material effect on 1986 earnings from continuing operations. The cumulative effect of the change on prior years was a charge of $14.1 million, net of income taxes, which has been reflected in net earnings for the first quarter of 1986.

In the fourth quarter of 1986, the Company adopted Statement of Financial Accounting Standards No. 87 "Employers' Accounting for Pensions" (FAS No. 87) for all defined benefit pension plans. The change, which was adopted retroactive to February 2, 1986, had no material effect on 1986 earnings from continuing operations. The provisions of the statement requiring recognition, beginning in 1989, of a pension asset and liability for any unfunded accumulated benefit obligation have not been early adopted. Restatement of prior years' pension costs is not permitted under the statement.

Fiscal Year	The Company's fiscal year ends on the Saturday closest to January 31st. Fiscal years 1986 and 1985 comprised 52 weeks and ended on January 31, 1987 and February 1, 1986. Fiscal year 1984 comprised 53 weeks and ended on February 2, 1985.
Sales	Sales are net of returns, exclude sales tax, and comprise merchandise, services, and sales by leased departments.
Customer Accounts Receivable	An account is generally written off when the aggregate of payments made in the most recent six months is less than one full monthly scheduled payment or if it is otherwise determined that the account is uncollectible.
Inventories	Merchandise inventories are valued at cost, which is less than market, as determined by the retail method on the last-in, first-out (LIFO) basis.
Property and Equipment	Property and equipment are recorded at cost and include major renewals and improvements of a permanent nature. Other renewals and improvements and maintenance and repairs are expensed.
Depreciation and Amortization	Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the property and equipment or over the lives of the related leases, if such periods are shorter.
Store Preopening	Store opening and preopening costs are charged to selling, general, and administrative expenses during the year of the store opening.
Income Taxes	Income taxes are provided currently for all items included in the Consolidated Statement of Earnings regardless of when such taxes are payable. Deferred taxes related to current items arise principally from income on the balances due on installment sales. Deferred taxes related to noncurrent items result principally from accelerated depreciation. Income taxes are reduced currently for investment tax credits using the flow-through method.
Pensions	The Company contributes each year at least the actuarially determined minimum amount necessary to fund participants' benefits in accordance with the requirements of the Employee Retirement Income Security Act of 1974 plus additional amounts which may be approved by the Company from time to time. Plan assets are invested in equity and fixed income securities.
Earnings Per Share of Common Stock	Primary earnings per share are computed on the basis of the weighted average number of shares outstanding during the year, including dilutive stock options, after deduction of preferred dividend requirements. The average shares used for the primary earnings per share computation were 20,229,809 in 1986, 19,600,882 in 1985, and 22,730,611 in 1984. Fully diluted earnings per share are computed on the assumption that all of the outstanding convertible debentures and preferred stock were converted into common stock at the beginning of the year, or date of issuance if later, eliminating preferred dividend requirements and interest, less tax, on the convertible debentures. The average shares used for the fully diluted earnings per share computation were 32,847,344 in 1986, 32,139,469 in 1985, and 33,001,809 in 1984.

Company Operations

The Company is a retailer of merchandise through department stores and specialty stores. Department stores include The Broadway-Southern California, The Broadway-Southwest, Emporium Capwell, Thalhimers, and Weinstock's. Specialty stores include Bergdorf Goodman, Contempo Casuals, and Neiman-Marcus. Financial information by operating group is as follows:

(Dollar amounts in millions)	1986	Percent of total	1985	Percent of total	1984	Percent of total
Sales						
Department stores	$2,996.0	73.3%	$2,889.9	72.6%	$2,749.9	73.8%
Specialty stores	1,093.8	26.7	1,088.0	27.4	974.4	26.2
Total	$4,089.8	100.0%	$3,977.9	100.0%	$3,724.3	100.0%
Operating profit						
Department stores	$ 171.9	57.2%	$ 143.6	56.3%	$ 111.6	52.9%
Specialty stores	128.6	42.8	111.4	43.7	99.3	47.1
	300.5	100.0%	255.0	100.0%	210.9	100.0%
Corporate expense, net	41.3		51.2		51.0	
Interest expense and discount, net	119.0		131.2		117.2	
Earnings from continuing operations before nonoperating items and income taxes	140.2		72.6		42.7	
Nonoperating items	(27.2)		(2.5)		(7.1)	
Earnings from continuing operations before income taxes	$ 113.0		$ 70.1		$ 35.6	

Net corporate expense includes administrative and general expenses relating to corporate finance, personnel, real estate and construction, legal, and investment functions.

Sales gains by operating group and by quarter were as follows:

	1986		1985		1984	
	All stores	Comparative stores	All stores	Comparative stores	All stores	Comparative stores
Operating Group						
Department stores	3.7%	2.2%	5.1%	4.4%	19.3%	16.9%
Specialty stores	.5	5.9	11.7	9.4	22.3	12.5
Total	2.8	3.2	6.8	5.8	20.1	15.7
Quarter						
First quarter	1.8%	.4%	14.4%	10.5%	22.3%	18.9%
Second quarter	3.7	2.8	8.7	8.1	20.6	17.4
Third quarter	4.1	4.8	8.6	4.0	19.5	16.7
Fourth quarter	1.9	4.1	.1	2.7	18.9	12.3

Comparable calendar periods have been used in computing comparative stores sales gains percentages.

Assets employed and depreciation and amortization expense by operating group and corporate were:

(Dollar amounts in millions)	1986	Percent of total	1985	Percent of total	1984	Percent of total
Assets at year end						
Department stores	$1,283.2	59.4%	$1,395.1	63.3%	$1,122.8	57.7%
Specialty stores	765.2	35.4	553.7	25.1	561.7	28.8
Corporate	113.5	5.2	256.3	11.6	262.7	13.5
Total	$2,161.9	100.0%	$2,205.1	100.0%	$1,947.2	100.0%
Depreciation and amortization						
Department stores	$ 52.3	68.8%	$ 50.9	67.9%	$ 49.8	68.8%
Specialty stores	20.7	27.2	20.8	27.7	18.9	26.2
Corporate	3.0	4.0	3.3	4.4	3.6	5.0
Total	$ 76.0	100.0%	$ 75.0	100.0%	$ 72.3	100.0%

Corporate includes the corporate office, the Information Services and Market Services divisions, and investments in finance subsidiaries. Corporate assets exclude the receivable on sale of Holt Renfrew in 1985.

Interest Expense and Discount

Interest expense and discount, which includes interest expense attributable to the finance subsidiaries (see page 22), decreased due to lower average borrowings and rates.

Components of net interest expense and discount are shown below:

(In millions)	1986	1985	1984
Discount on customer receivables sold to the finance subsidiaries	$ 45.6	$ 70.0	$ 79.0
Pretax earnings of the finance subsidiaries, before noninterest items	(17.5)	(27.5)	(32.0)
Interest expense attributable to the finance subsidiaries	28.1	42.5	47.0
Interest on long-term debt	65.0	53.2	38.3
Imputed interest on capitalized lease obligations	11.8	12.3	12.7
Interest on short-term debt	10.5	15.0	19.8
Discount on customer receivables sold to banks	6.1	13.8	13.1
Interest income	(.4)	(.8)	(2.9)
Capitalized interest	(2.1)	(4.8)	(5.6)
Interest expense attributable to discontinued operations			(5.2)
Interest expense and discount, net	$119.0	$131.2	$117.2

Sale of John Wanamaker

On December 31, 1986, the Company completed the sale of its John Wanamaker subsidiary for approximately $183 million in cash. The loss on the sale of John Wanamaker has been calculated based upon management's determination of book value. Such determination is subject to acceptance by the purchaser. The purchase contract provides for certain arbitration procedures in the event of a dispute. John Wanamaker's operating results are reflected in all periods through December 31, 1986. Its sales were $433.2 million in the eleven months ended December 31, 1986, $450.8 million in 1985, and $427.9 million in 1984.

Sale of Holt Renfrew

In April 1986, the Company completed the sale of its Canadian subsidiary, Holt Renfrew, for $29.7 million in cash, resulting in a loss of $2.5 million. The sale was reflected in the financial statements for the year ended February 1, 1986. Holt Renfrew's sales were $82.4 million in 1985 and $74.3 million in 1984.

Discontinued Operations

In July 1984, the Company sold its Waldenbooks subsidiary for $295.0 million in cash, resulting in a gain of $63.0 million, net of income taxes of $29.8 million. Waldenbooks was accounted for as a discontinued operation in 1984. Its operations for the six months through July 1984 resulted in a loss of $.5 million, net of income tax benefits of $1.0 million. Its sales for the six months ended July 28, 1984 were $196.8 million.

Tax Expense

Taxes, including those of the finance subsidiaries, are summarized below:

(In millions)	1986	1985	1984
Income taxes			
Currently payable			
Federal	$ 25.0	$ (4.9)	$ 5.0
State	11.5	3.5	3.2
	36.5	(1.4)	8.2
Deferred			
Federal	26.3	21.4	.9
State	2.6	2.1	(.6)
	28.9	23.5	.3
Total income taxes	65.4	22.1	8.5
Property taxes	26.6	28.3	25.7
Payroll taxes	57.8	58.6	56.1
Other	3.0	2.8	3.0
Tax expense	$152.8	$111.8	$93.3

Deferred income tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and their tax effects were:

(In millions)	1986	1985	1984
Deferred gross profit on installment sales	$ 13.6	$ 14.6	$ .1
Excess of tax over financial depreciation	7.7	11.9	8.2
Finance charge income	(.5)	2.9	
Capitalized interest and other real estate costs	2.0	1.5	1.5
Inventory valuation	2.4	.9	(1.1)
Installment sale of joint venture interest			(4.3)
Charitable contribution carryover	(.3)	(2.7)	
Deferred charges	2.9	(2.1)	1.6
Deferred compensation	(1.3)	(1.5)	(2.1)
Other, net	2.4	(2.0)	(3.6)
Deferred income tax expense	$ 28.9	$ 23.5	$ .3

Income taxes as a percent of earnings before income taxes differed from the statutory federal income tax rate as set forth below:

(Dollar amounts in millions)	1986	Percent of pre-tax earnings	1985	Percent of pre-tax earnings	1984	Percent of pre-tax earnings
Federal income tax at statutory rate	$52.0	46.0%	$32.3	46.0%	$16.4	46.0%
Restructuring costs	11.5	10.2				
State income taxes	6.9	6.1	2.6	3.8	1.0	2.8
John Wanamaker basis difference	5.6	4.9				
Investment credit	(2.0)	(1.8)	(8.2)	(11.7)	(4.9)	(13.8)
Charitable contribution	(2.0)	(1.8)	(1.8)	(2.6)		
ESOB Plan credit	(1.5)	(1.3)	(1.5)	(2.1)	(1.2)	(3.4)
Tender offer costs					(2.3)	(6.4)
Reversal of taxes previously provided	(3.7)	(3.2)				
Other, net	(1.4)	(1.2)	(1.3)	(1.9)	(.5)	(1.3)
Income taxes	$65.4	57.9%	$22.1	31.5%	$ 8.5	23.9%

Accounts Receivable and Credit Operations

Accounts receivable at year end were as follows:

(In millions)	1986	1985
Customer receivables	$712.4	$856.2
Notes and other receivables	34.0	32.9
	746.4	889.1
Less		
Customer receivables sold to finance subsidiaries (less $30.2 and $52.1 withheld pending collection and settlement of discount)	272.0	469.3
Customer receivables sold to a bank (less $7.9 withheld pending collection and settlement of discount)		114.2
Allowance for doubtful accounts	10.4	12.8
	282.4	596.3
Accounts receivable, net	$464.0	$292.8

Customer receivables arise under credit plans provided by the Company at all divisions except Contempo Casuals, which accepts only third party credit cards.

The following is selected information on the Company's credit operations:

(Dollar amounts in millions)	1986	1985	1984
Credit sales as a percent of eligible sales	60.2%	61.8%	61.4%
Uncollectible account losses, net of recoveries, as a percent of credit sales	1.6%	1.4%	1.2%
Finance charge income	$104.4	$126.7	$109.5

Finance charge income is treated as a reduction of selling, general, and administrative expenses.

Inventories

Merchandise inventories were $756.0 million at January 31, 1987 and $776.8 million at February 1, 1986. In 1986, the LIFO adjustment to cost of sales was a credit of $1.9 million, compared with credits of $6.4 million in 1985 and $17.2 million in 1984. If all inventories had been valued on the first-in, first-out (FIFO) basis, they would have been higher by $20.7 million at January 31, 1987, $26.5 million at February 1, 1986, and $31.6 million at February 2, 1985.

Leases

Company operations are conducted mainly in leased properties, which include retail stores, distribution centers, offices, and other facilities. Leases are generally for periods of up to thirty years, with renewal options for substantial periods, except for Contempo Casuals leases, which are generally for ten to fifteen years. Leases are generally at fixed rentals, except that certain leases provide for additional rentals based on sales in excess of predetermined levels.

Rent expense for each year was as follows:

(In millions)	*1986*	*1985*	*1984*
Minimum rent	$59.8	$59.5	$54.7
Rent based on sales	9.1	9.6	8.4
Total rent expense	$68.9	$69.1	$63.1

Future minimum lease payments are as follows:

(In millions)	*Capital leases*	*Operating leases*
1987	$ 16.3	$ 55.7
1988	16.2	54.7
1989	16.1	54.7
1990	16.0	54.7
1991	15.8	53.8
Thereafter	183.6	966.2
Total future minimum lease obligations	$264.0	$1,239.8
Present value, including $5.5 current portion of capital lease obligations	$135.7	$ 350.1

Present value of operating leases is determined by discounting future minimum rent commitments, less assumed executory and administrative costs, at rates that approximate the Company's financing costs at the inception of the lease.

Property and Equipment

Property and equipment at year end were as follows:

(In millions)	*1986*	*1985*
Land	$ 56.4	$ 63.1
Buildings and improvements	292.4	292.4
Leasehold improvements	196.3	182.3
Fixtures and equipment	580.5	597.3
Construction in progress	37.2	33.0
Leased property under capital leases, primarily buildings	199.4	220.8
	1,362.2	1,388.9
Less accumulated depreciation and amortization		
Owned property	468.2	430.1
Leased property under capital leases	94.5	103.3
	562.7	533.4
Property and equipment, net	$ 799.5	$ 855.5

Capital expenditures during the year were as follows:

(In millions)	Department stores	Specialty stores	Corporate	Total
1986				
New stores	$49.8	$ 9.3		$ 59.1
Store modernization	24.6	6.8		31.4
Support facilities and equipment	4.9	1.3	$10.4	16.6
Total	$79.3	$17.4	$10.4	$107.1
1985				
New stores	$61.3	$16.3		$ 77.6
Store modernization	23.7	15.5		39.2
Support facilities and equipment	6.9	1.5	$ 2.2	10.6
Total	$91.9	$33.3	$ 2.2	$127.4
1984				
New stores	$35.2	$12.7		$47.9
Store modernization	23.1	21.9		45.0
Support facilities and equipment	5.7	6.3	$ 2.4	14.4
Total	$64.0	$40.9	$ 2.4	$107.3

Expenditures for new stores include acquisition costs of land, buildings and improvements, and related fixtures and equipment. Store modernization expenditures include renovating, expanding, and re-equipping existing stores. Support facilities and equipment expenditures relate to office buildings, distribution centers, and other nonstore outlays.

Long-Term Debt

Long-term debt at year end was:

(In millions)	1986	1985
Senior debt		
6½-8¾ percent Notes due 1988-2008	$ 35.6	$ 37.5
9-9.95 percent Notes due 1988-2010	28.6	53.9
11-11⅛ percent Notes		250.0
13.45 percent Note due 1999 (rate renegotiable in 1991)	50.0	50.0
9⅛-9.45 percent Sinking Fund Debentures		75.0
11⅞ percent Sinking Fund Debentures		75.0
Other	3.1	3.2
	117.3	544.6
Notes maturing within one year at weighted average interest rate of 7.0 percent	460.0	
4¾ percent Convertible Subordinated Debentures due 1987, convertible into common stock at $41.50 per share		7.0
Long-term debt	$577.3	$551.6

During December 1986, the Company initiated a program to retire all of its public long-term debt to facilitate its restructuring plan announced December 7, 1986, which requires the refinancing of substantially all such debt. The program resulted in the retirement of $250.0 million of 11-11⅛ percent Notes and $150.0 million of 9⅛-11⅞ percent Sinking Fund Debentures at a net of tax cost of $29.3 million. Of the total debt retired, $153.8 million was accomplished by an in-substance defeasance transaction under which, on January 28, 1987, the Company created certain irrevocable trusts which acquired $167.4 million of Treasury Bills, for the sole purpose of satisfying its obligation for the payment of principal, accrued interest, and call premium on such debt during February and March 1987. Both the debt and Treasury Bills relating to this transaction were excluded from the Company's January 31, 1987 Balance Sheet. Funds for the debt retirement program were obtained through short-term borrowings.

At January 31, 1987, the Company had outstanding $529.0 million of notes payable maturing within one year of which $460.0 million have been reclassified as long-term debt. The reclassification was made to reflect the Company's intention to refinance these borrowings on a long-term basis either as part of its restructuring plan or under the long-term borrowing facility provided by the Credit Agreement.

Principal maturities of long-term debt payable over the next five years are $9.2 million, $3.1 million, $2.9 million, $3.1 million, and $3.3 million. Long-term debt at January 31, 1987, includes $110.0 million secured by property carried at $124.6 million.

Contingencies

The Company is a party to certain litigation relating to the restructuring and to the December 1986 offer by Retail Partners to purchase shares of the Company's common stock. In the opinion of management, the ultimate outcome of this litigation will not have a material adverse effect upon the Company. The Company is a defendant in other legal actions, the disposition of which, in the opinion of management, will not have a material adverse effect upon the Company's financial position or results of operations.

Bank Credit Arrangements

The Company and Credit Corp. share a Credit Agreement that provides $500.0 million of loan commitments under either or a combination of two credit facilities at variable rates of interest. Facility A provides for one-year revolving loan commitments, which may be extended, with the consent of the lender, for successive periods of 364 days. Facility B provides for three-year revolving loan commitments, which may be extended, with the consent of the lender, for successive periods of one year. Upon termination of the Facility B revolving loan commitments, any Facility B revolving loans then outstanding may be converted into a seven-year term loan. A commitment fee is payable on the unused portion. At January 31, 1987, $268.0 million was borrowed under the Credit Agreement.

The Company and Credit Corp. also share $173.0 million of unsecured lines of credit. Borrowings under these lines are at prime rates of interest or lower with a commitment fee payable on any unused portion. At January 31, 1987, $46.0 million was borrowed against the lines of credit.

Carter Hawley Hale Finance Subsidiaries

The Company finances customer accounts receivable through its unconsolidated finance subsidiaries, Credit Corp., CHH Finance Corp. (Finance Corp.), and Carter Hawley Hale Overseas Finance N.V. (Finance N.V.). In addition to capital invested by the Company and accumulated earnings, the finance subsidiaries finance the purchase of customer accounts receivable through bank borrowings and debt issuances. The finance subsidiaries purchase the receivables at discounts sufficient to cover their fixed charges, principally interest expense, at least one and one-half times. Net earnings of the finance subsidiaries were $8.5 million in 1986, $14.1 million in 1985, and $16.5 million in 1984. Dividends from accumulated earnings totaling $62.1 million in 1986, $15.0 million in 1985, and $30.0 million in 1984 were paid to the Company by the finance subsidiaries. In addition, during 1986, dividend payments of $44.3 million were made, representing a return of other paid-in capital. During 1986 a plan to liquidate Finance N.V. and Finance Corp. was put into effect. Pursuant to the plan, substantially all net assets of these companies were distributed to the Company prior to January 31, 1987. The combined balance sheet of the finance subsidiaries, which reflects the elimination of all intercompany items, is presented below:

(In millions)	January 31, 1987	February 1, 1986
Assets		
Customer accounts purchased from Carter Hawley Hale Stores, Inc., less 10 percent withheld pending collection and settlement of discount	$272.0	$469.3
Cash and other assets	.7	.9
	$272.7	$470.2
Liabilities and Investment of Carter Hawley Hale Stores, Inc.		
Accrued liabilities	$ 5.5	$ 10.2
8.45 percent Notes due 1987-1997	21.1	23.1
9.75 percent Notes		50.0
11.75-12.00 percent Notes due 1987-1988	196.0	238.0
8.95 percent Subordinated Notes due 1987-1991	5.0	6.0
Investment of Carter Hawley Hale Stores, Inc. (including $.3 and $53.9 of accumulated earnings)	45.1	142.9
	$272.7	$470.2

Employee Stock Option Plans

The Company's stock option plans provide that key employees may be granted options to purchase the common stock of the Company at not less than the market price on the date of grant. Options may be exercised over a ten-year period generally beginning one year from the date of grant. At January 31, 1987, options for 1,228,334 shares were outstanding at prices ranging from $13.25 to $35.875, of which options for 657,462 shares were exercisable.

During 1986, the Company obtained consent from the holders of all outstanding stock options issued in tandem with stock appreciation rights to cancel the stock appreciation rights and to modify certain terms of the related stock options, which cover approximately 500,000 shares of common stock.

Retirement and Profit Sharing Plans

The Company has several qualified noncontributory pension plans covering substantially all employees. Employees who have completed one year of employment, are at least 21 years of age, and are not covered by a collectively bargained pension plan, are covered by the plans and become vested for benefit purposes after completing ten years of employment with the Company. The Company has unfunded nonqualified pension plans covering certain employees. An analysis of pension expense for 1986 and the funded status of the plans based on the latest available actuarial information estimated as of December 31, 1986 is as follows:

(In millions)	*1986*
Net periodic pension expense	
Service cost	$ 6.7
Interest cost on projected benefit obligation	16.1
Actual return on assets	(14.7)
Amortization and deferral	4.4
	$ 12.5
Funded status of plans	
Accumulated benefit obligation	
Vested	$(150.4)
Nonvested	(24.4)
	(174.8)
Additional amounts relating to projected compensation increases	(27.9)
Actuarial present value of projected benefit obligations	(202.7)
Market value of plan assets	130.6
Funded status	(72.1)
Unrecognized net obligation at initial date of application of FAS No. 87	52.7
Unrecognized net loss	24.9
Prepaid pension expense	$ 5.5
Significant actuarial assumptions	
Discount rate	
Beginning of year	10.0%
End of year	9.0
Long-term rate of return on assets	11.0
Projected rate of compensation increases	5.0

Pension expense for 1985 and 1984, which were not restated, amounted to $12.7 million and $11.0 million and included an interest rate assumption of 9.0 percent. The Company's contribution policy resulted in contributions exceeding the amounts expensed by $4.0 million in 1985 and $10.7 million in 1984. The additional contributions were made shortly after the end of each fiscal year and are reflected in the net assets available for plan benefits of $136.9 million at February 1, 1986. The actuarial present value of accumulated benefit obligations was $165.9 million at February 1, 1986 of which $143.5 million was vested.

In addition, the Company provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost of retiree health care and life insurance benefits is recognized as expense as claims are paid and was $3.0 million in 1986, $2.2 million in 1985, and $1.9 million in 1984.

A contributory Profit Sharing Plan is available to substantially all employees who have completed one year of service. The Company encourages employees to participate by allocating 3.0 percent of the Company's pretax earnings, as defined, to employees who participate in the Plan. Employee and Company contributions are used to buy shares of the Company's common stock at prevailing market prices. At January 31, 1987, the Plan held 5.7 million shares, representing 28 percent of the Company's common stock outstanding. The Company's contribution to the Plan was $4.3 million in 1986, $2.2 million in 1985, and $1.4 million in 1984.

The Company has a noncontributory, payroll-based, employee stock ownership benefit plan (ESOB Plan) covering substantially all employees eligible under the retirement and profit sharing plans. The Company's contribution was $2.8 million in 1986, $2.7 million in 1985, and $2.3 million in 1984 and is equal to .5% of the payroll of eligible employees. The Company receives a direct income tax credit for the amount of its contribution. As a result of federal tax law changes the ESOB Plan was terminated subsequent to year end. All assets of the plan will be distributed to eligible employees during 1987.

Redeemable Preferred Stock

In April 1984, the Company sold one million shares of a new series of Cumulative Preferred Stock, $5 par value, to General Cinema Corporation for an aggregate purchase price of $300.0 million. The preferred stock provides for a 10 percent cumulative annual dividend and entitles the holder to 11.11 votes for each share held. The preferred stock is currently convertible at the holder's option into 12,227,407 shares of common stock of the Company at a rate determined by dividing the redemption value by the conversion price, as defined. The current conversion price of $24.535 is subject to change upon issuance or sale of common stock at less than the market value or the current conversion price. At January 31, 1987, the market price of the common stock was $52.00.

The preferred stock has a $300 per share redemption value and is redeemable, at the Company's option, in whole or in part, beginning April 15, 1989 with a premium decreasing from five to one percent of the redemption value payable on each redemption during the period April 15, 1989 through April 14, 1994. The Company is required on an annual basis, commencing in April 1990, to redeem 20 percent of the preferred stock then outstanding.

At January 31, 1987, five million shares of preferred stock have been authorized.

Common Stock and Other Shareholders' Equity

At January 31, 1987, authorized common stock consisted of 60 million shares, $5 par value, of which 12,383,142 shares have been reserved for issuance upon conversion of outstanding convertible securities, 2,181,747 shares have been reserved under the employee stock option plans, 1,980,870 shares have been reserved for purchase by the Profit Sharing Plan, and 1,016,970 shares have been reserved for issuance under the Dividend Reinvestment and Stock Purchase Plan.

The Dividend Reinvestment and Stock Purchase Plan allows holders of common stock to elect to have their quarterly dividends reinvested in shares of the Company's common stock. The Plan also enables participants to make direct cash purchases of common stock at the market price. At January 31, 1987, 1,845 common shareholders representing 3,160,789 total shares were participating in the Plan.

The Credit Agreement contains a restrictive covenant on the amount of accumulated earnings that may be distributed in dividends. At January 31, 1987, no amount of accumulated earnings was restricted from the payment of dividends.

Company Report on Responsibility for Financial Statements

The integrity and objectivity of the financial statements, including estimates and judgments inherent in the preparation of financial information and the selection of appropriate accounting principles, are the responsibilities of the Company, as is all other information included in this Annual Report.

The Company maintains a system of internal accounting controls, supported by documentation, to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Company. Limitations exist in any system of internal accounting controls based upon the recognition that the cost of the system should not exceed the benefits derived. The Company believes its system of internal accounting controls, augmented by its internal auditing function, appropriately balances the cost/benefit relationship. The system provides for the prevention or detection of material errors and has been implemented and supported by written policies and guidelines, the internal audit function, a division of responsibility in organizational arrangements, and the selection and training of qualified personnel.

The financial statements have been examined by our independent accountants in accordance with generally accepted auditing standards in order that they might render their independent professional opinion, which is presented below. To express their opinion, independent accountants develop and maintain an understanding of the accounting and financial systems and controls, conduct tests, and employ such related audit procedures as they consider necessary.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the independent accountants, management, and internal auditors to discuss accounting principles, financial and accounting controls, the scope of the annual audit, internal audit, and other matters. Management's selection of independent accountants is reviewed by this committee and the independent accountants and the internal auditors have complete access to it, without management present, to discuss results of their audit and their opinions on adequacy of internal controls, quality of financial reporting, and any other matters of interest.

Report of Independent Accountants

Price Waterhouse

To the Directors and Shareholders of
Carter Hawley Hale Stores, Inc.

400 South Hope Street
Los Angeles, California
March 27, 1987

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of earnings, changes in financial position and nonredeemable preferred stock, common stock, and other shareholders' equity present fairly the financial position of Carter Hawley Hale Stores, Inc. and its consolidated subsidiaries at January 31, 1987 and February 1, 1986, and the results of their operations and the changes in their financial position for each of the three fiscal years in the period ended January 31, 1987, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of accounting for costs incurred in the development of computer software for internal use as described in the Changes in Accounting Policies section of the Summary of Significant Accounting Policies. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Carter Hawley Hale Stores, Inc.

Quarterly Information (Unaudited)

(In millions, except per share data)	First quarter	Second quarter	Third quarter	Fourth quarter	Year
1986					
Sales	$866.8	$890.8	$989.6	$1,342.6	$4,089.8
Cost of goods sold, including occupancy and buying costs	606.3	633.0	688.5	970.4	2,898.2
Selling, general, and administrative expenses	204.7	208.5	241.8	277.4	932.4
Interest expense and discount, net	31.5	30.0	28.7	28.8	119.0
Pretax earnings before nonoperating items	24.3	19.3	30.6	66.0	140.2
Nonoperating items				(27.2)	(27.2)
Pretax earnings	24.3	19.3	30.6	38.8	113.0
Income taxes	9.8	7.7	14.2	33.7	65.4
Net earnings before extraordinary item and cumulative effect of change in accounting	14.5	11.6	16.4	5.1	47.6
Extraordinary item				(29.3)	(29.3)
Cumulative effect of change in accounting	(14.1)				(14.1)
Net earnings	$ .4	$ 11.6	$ 16.4	$ (24.2)	$ 4.2
Primary earnings per common share*					
Net earnings before extraordinary item and restatement for cumulative effect of change in accounting	$ .35	$ .20	$ .44	$ (.12)	$ .87
Extraordinary item				(1.46)	(1.44)
Cumulative effect of change in accounting	(.70)				(.70)
Net earnings	$ (.35)	$ .20	$ .44	$ (1.58)	$ (1.27)
1985					
Sales	$851.8	$858.7	$950.3	$1,317.1	$3,977.9
Cost of goods sold, including occupancy and buying costs	603.8	615.6	665.1	966.1	2,850.6
Selling, general, and administrative expenses	198.0	198.1	235.7	291.7	923.5
Interest expense and discount, net	30.7	32.1	33.1	35.3	131.2
Pretax earnings before nonoperating item	19.3	12.9	16.4	24.0	72.6
Nonoperating item				(2.5)	(2.5)
Pretax earnings	19.3	12.9	16.4	21.5	70.1
Income taxes	7.7	5.2	6.6	2.6	22.1
Net earnings	$ 11.6	$ 7.7	$ 9.8	$ 18.9	$ 48.0
Primary earnings per common share*	$ .21	$ .01	$ .12	$ .58	$ .92

* *Fully diluted earnings per common share are not shown as the effect of the calculation is anti-dilutive.*

Market Price Ranges of Common Stock (Unaudited)

	First quarter	Second quarter	Third quarter	Fourth quarter	Year
1986	$34⅞-29	$38-29⅜	$39-33⅞	$55-39⅝	$55-29
1985	$28½-25	$30⅞-27½	$29½-24½	$35⅝-26½	$35⅝-24½
1984	$32-18⅜	$31½-19	$23⅝-19½	$27-22⅜	$32-18⅜

The New York Stock Exchange is the principal market on which the common stock is traded. The redeemable preferred stock is not traded.

Carter Hawley Hale Stores, Inc.

Store Square Footage Report

Information as of year end.
Gross store space in thousands of square feet.

		1986	1985	1984	1983	1982
Department Stores	*The Broadway-Southern California*					
	Number	43	41	40	40	40
	Store space	7,459	7,101	6,971	6,971	6,971
	The Broadway-Southwest					
	Number	13	12	10	10	10
	Store space	2,012	1,877	1,609	1,609	1,609
	Emporium Capwell					
	Number	22	22	22	21	20
	Store space	5,268	5,246	5,246	5,065	4,934
	Thalhimers					
	Number	24	25	25	26	25
	Store space	2,637	2,588	2,445	2,507	2,373
	Weinstock's					
	Number	12	12	12	12	12
	Store space	1,935	1,935	1,935	1,935	1,935
	Total Department Stores					
	Number	114	112	109	109	107
	Store space	19,311	18,747	18,206	18,087	17,822
Specialty Stores	*Bergdorf Goodman*					
	Number	1	1	1	1	1
	Store space	250	250	250	250	250
	Contempo Casuals					
	Number	165	133	105	79	66
	Store space	679	546	429	323	274
	Neiman-Marcus					
	Number	22	22	21	20	18
	Store space	3,230	3,230	3,106	2,944	2,622
	Total Specialty Stores					
	Number	188	156	127	100	85
	Store space	4,159	4,026	3,785	3,517	3,146
	Total Operations					
	Number	302	268	236	209	192
	Store space	23,470	22,773	21,991	21,604	20,968

Carter Hawley Hale Stores, Inc.

Ten Year Financial Summary

(Dollar amounts in thousands, except per share data)	*1986*	*1985*	*1984*[1]
For the Year			
Sales	$4,089,794	$3,977,913	$3,724,294
Percent increase from prior year	2.8	6.8	20.1
Cost of goods sold, including occupancy and buying costs	2,898,213	2,850,599	2,702,055
Selling, general, and administrative expenses	932,361	923,504	862,272
Interest expense and discount, net	119,005	131,235	117,237
Earnings from continuing operations before nonoperating items and income taxes	140,215	72,575	42,730
Nonoperating items[3]	(27,200)	(2,450)	(7,100)
Earnings from continuing operations before income taxes	113,015	70,125	35,630
Income taxes	65,400	22,100	8,500
Earnings from continuing operations	47,615	48,025	27,130
Percent increase (decrease) from prior year	(.9)	77.0	(51.0)
Discontinued operations, net of income taxes[4]			62,540
Extraordinary item and change in accounting[5]	(43,401)		
Net earnings	4,214	48,025	89,670
Cash dividends	54,255	53,638	50,129
Property and equipment expenditures	107,121	127,384	107,284
Per Common Share			
Book value	$ 16.18	$ 18.37	$ 18.26
Book value assuming conversion of preferred	19.34	20.74	20.71
Primary earnings from continuing operations	.87	.92	—
Fully diluted earnings from continuing operations	•	•	•
Cash dividends	1.22	1.22	1.22
At Year End			
Accounts receivable, net (including accounts sold)	$ 735,909	$ 876,300	$ 894,274
Merchandise inventories	755,971	776,831	717,300
Owned property and equipment, net	694,629	737,966	699,295
Leased property under capital leases, net	104,886	117,528	124,274
Total assets	2,161,876	2,234,767	1,947,206
Long-term debt	577,284	551,613	396,654
Capital lease obligations	130,236	145,940	152,006
Redeemable preferred stock	300,000	300,000	300,000
Nonredeemable preferred stock, common stock, and other shareholders' equity	324,207	359,354	348,166
Common shares outstanding (in thousands)	20,043	19,559	19,067
Common shareholders	9,951	12,205	10,692
Employees	46,000	56,000	56,000

(1) Fifty-three weeks.

(2) Reflects change to LIFO valuation of specialty store inventories.

(3) Includes loss on sale of John Wanamaker of $2.2 million and costs relating to the restructuring program of $25.0 million in 1986, loss on sale of Holt Renfrew of $2.5 million in 1985, tender offer costs of $7.1 million in 1984, gains on sale of joint venture interests of $12.8 million in 1983 and $3.8 million in 1982, and gain on retirements of debentures of $4.2 million in 1983, $8.0 million in 1982, $10.5 million in 1981, $3.1 million in 1980, and $1.8 million in 1979.

(4) Includes gain on sale of Waldenbooks of $63.0 million, net of income taxes, in 1984.

(5) Includes costs relating to early retirement of long-term debt of $29.3 million, net of income taxes, and charge for change in accounting for software development costs of $14.1 million, net of income taxes.

• Fully diluted earnings per common share are not shown as the effect of the calculation is anti-dilutive.

	1983	1982	1981[2]	1980	1979	1978[1]	1977
	$3,101,682	$2,590,650	$2,485,697	$2,313,960	$2,145,410	$1,888,714	$1,462,631
	19.7	4.2	7.4	7.9	13.6	29.1	10.0
	2,240,404	1,851,566	1,755,831	1,611,802	1,488,450	1,318,585	1,016,860
	706,368	599,493	593,321	556,355	491,530	419,314	321,291
	92,345	99,237	91,412	72,348	59,158	47,424	36,738
	62,565	40,354	45,133	73,455	106,272	103,391	87,742
	17,020	11,806	10,542	3,076	1,820		
	79,585	52,160	55,675	76,531	108,092	103,391	87,742
	24,200	11,650	16,350	26,600	44,600	46,900	39,000
	55,385	40,510	39,325	49,931	63,492	56,491	48,742
	36.7	3.0	(21.2)	(21.4)	12.4	15.9	21.0
	12,100	8,515	5,437	7,410	5,570	6,780	4,950
	67,485	49,025	44,762	57,341	69,062	63,271	53,692
	43,454	39,450	36,262	33,616	31,073	27,289	24,552
	90,100	129,469	114,987	155,493	131,438	105,910	97,429
	$21.27	$20.58	$20.97	$20.69	$19.76	$18.25	$16.74
	21.44	20.84	21.25	21.23	20.52	19.25	17.96
	1.57	1.27	1.35	1.79	2.42	2.21	1.93
	1.56	1.27	1.33	1.72	2.25	2.06	1.81
	1.22	1.22	1.22	1.16	1.10	1.00	.95
	$ 825,254	$ 782,387	$ 734,853	$ 647,644	$ 594,742	$ 497,368	$ 384,230
	579,944	485,370	439,227	376,387	344,553	309,332	234,416
	664,397	652,042	615,813	565,218	462,590	424,768	331,558
	131,169	138,377	148,842	156,724	166,494	182,296	184,815
	1,961,694	1,826,314	1,686,150	1,611,548	1,454,207	1,379,014	1,164,278
	358,268	415,366	404,438	403,317	304,360	304,885	218,218
	158,075	164,376	174,677	181,733	190,291	204,744	200,733
	783,533	692,972	647,039	620,217	580,783	528,161	481,170
	35,341	31,890	28,920	26,540	25,192	24,148	23,470
	13,182	13,288	12,864	12,870	13,611	14,218	14,350
	52,000	49,000	49,000	48,000	50,000	51,000	39,000

Robert O. Anderson, Chairman and President of Hondo Oil & Gas Company. Director since 1975.(4)

Norman Barker, Jr., Former Chairman of the Board of First Interstate Bank of California and Vice Chairman of First Interstate Bancorp. Director since 1970.(1,2,3,4)

Benjamin F. Biaggini, Chairman Retired of Southern Pacific Company. Director since 1983.(2,3,5)

William L. Brown, Chairman of Bank of Boston Corporation and its principal subsidiary, The First National Bank of Boston. Director since 1984.(2)

Waldo H. Burnside, President and Chief Operating Officer of Carter Hawley Hale Stores, Inc. Director since 1980.(1)

Edward W. Carter, Chairman of the Board Emeritus of Carter Hawley Hale Stores, Inc. Director since 1946.(1)

Arthur L. Crowe, Retired Executive Vice President of Carter Hawley Hale Stores, Inc. Director since 1977.(5)

John T. Dorrance, Jr., Chairman of the Executive Committee of Campbell Soup Company. Director since 1978.(2,4)

Samuel Frankenheim, Senior Vice President, General Counsel, and a member of the Office of the Chairman of General Cinema Corporation. Director since 1984.(4)

Walter B. Gerken, Chairman of the Board of Pacific Mutual Life Insurance Company. Director since 1977.(1,3,4,5)

Prentis C. Hale, Former Chairman of the Board of Carter Hawley Hale Stores, Inc. Director since 1949.(5)

Philip M. Hawley, Chairman of the Board and Chief Executive Officer of Carter Hawley Hale Stores, Inc. Director since 1970.(1)

Harold J. Haynes, Senior Counselor to the Bechtel Group, Inc. Director since 1977.(2,3,4)

J. Atwood Ives, Vice Chairman, Chief Financial Officer, and a member of the Office of the Chairman of General Cinema Corporation. Director since 1984.(1,2)

Herbert W. Jarvis, Professor at Rochester Polytechnic Institute. Director since 1984.(3)

Donn B. Miller, Partner in the Los Angeles-based law firm of O'Melveny & Myers. Director since 1974.(1)

Walter J. Salmon, Stanley Roth Sr. Professor of Retailing at the Graduate School of Business Administration, Harvard University. Director since 1974.(2,5)

Jean Head Sisco, Partner in Sisco Associates, Management Consultants. Director since 1977.(2,5)

Richard A. Smith, Chairman of the Board, Chief Executive Officer, and a member of the Office of the Chairman of General Cinema Corporation. Director since 1984.(1)

Robert J. Tarr, Jr., President, Chief Operating Officer, and a member of the Office of the Chairman of General Cinema Corporation. Director since 1984.(3)

William B. Thalhimer, Jr., Chairman of the Board of Thalhimer Brothers, Incorporated, a subsidiary of Carter Hawley Hale Stores, Inc. Director since 1978.(1,5)

Hugo Uyterhoeven, Timken Professor of Business Administration and Senior Associate Dean at the Graduate School of Business Administration, Harvard University. Director since 1984.(5)

(1) Executive Committee (2) Audit Committee (3) Compensation Committee (4) Nominating Committee (5) Public Policy Committee

Carter Hawley Hale Stores, Inc.

Corporate Officers and Division Management

Corporate Officers

Philip M. Hawley, Chairman of the Board and Chief Executive Officer

Waldo H. Burnside, President and Chief Operating Officer

Loyd E. Ellis, Executive Vice President

John M. Gailys, Executive Vice President and Chief Financial Officer

J. Hart Lyon, Executive Vice President

Paul E. Chevalier, Senior Vice President

Edwin J. Holman, Senior Vice President

Edward S. Waterbury, Senior Vice President

Thomas E. Brown, Vice President

D. Clair Brumbaugh, Vice President

E. J. Caldecott, Vice President

Arthur G. Coons, Vice President

Theodore J. Cotti, Vice President

Brian L. Fleming, Vice President

Robert J. Gilmartin, Vice President

Serena S. Kokjer, Vice President

Harry Levitt, Vice President

J. Scott Meyer, Vice President

Charles E. Murphy, Vice President

Larry G. Petersen, Vice President

E. Harlin Smith, Vice President

Dale G. Thune, Vice President

Walter W. Tuthill, Vice President

Edward A. Wolfe, Vice President

John F. Busey, Treasurer

James L. Vandeberg, Secretary and Corporate Counsel

Division Management

Department Stores

The Broadway-Southern California
H. Michael Hecht, Chairman
Richard F. Clayton, President

The Broadway-Southwest
Robert B. Mang, President

Emporium Capwell
David H. Folkman, President
Jack L. Richardson, Chairman

Thalhimers
Stewart M. Kasen, President
William B. Thalhimer, Jr., Chairman

Weinstock's
Cheryl Nido Turpin, Chairman
Michael C. Weisberg, President

Specialty Stores

Bergdorf Goodman
Ira Neimark, Chairman
Dawn Mello, President
Stephen C. Elkin, Vice Chairman

Contempo Casuals
Eve A. Rich, Chairman
Bernard Zeichner, President

Neiman-Marcus
Richard C. Marcus, Chairman
David L. Dworkin, President

Support Divisions

Information Services
R. Vincent Conant, Chairman
Robert M. Menar, President

Market Services
Gregory C. Crews, President

Executive Offices	550 South Flower Street, Los Angeles, California 90071, Telephone: (213) 620-0150
Common Stock	Symbol: CHH, New York Stock Exchange, Pacific Stock Exchange, London Stock Exchange
Transfer Agent and Registrar	Security Pacific National Bank, Corporate Services Division, 2-70, P.O. Box 60228, Terminal Annex, Los Angeles, California 90060
Independent Accountants	Price Waterhouse
General Counsel	O'Melveny & Myers, Los Angeles
Form 10-K	A copy of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission is available upon request to: The Secretary, Carter Hawley Hale Stores, Inc., 550 South Flower Street, Los Angeles, California 90071.

FILMED

JUL 1987

MIRAC